

Idaho Legislative Audits
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Idaho Correctional Industries

Audit Report

Issued: December 9, 2005
Fiscal Year: 2004 and 2005



EXECUTIVE SUMMARY LEGISLATIVE AUDITS

IDAHO DEPARTMENT OF CORRECTION CORRECTIONAL INDUSTRIES

PURPOSE AND SCOPE. We have audited the financial statements of the Idaho Department of Correction, Correctional Industries for the fiscal years ended June 30, 2004 and 2005, in accordance with auditing standards generally accepted in the United States of America. The purpose of our audit is to determine whether Correctional Industries' financial statements are materially accurate and reliable, and that Correctional Industries has complied with laws and regulations affecting fiscal operations.

CONCLUSION. We conclude that Correctional Industries' financial statements are materially accurate and reliable, and fiscal operations materially comply with related laws and regulations. As a result, we issued an unqualified opinion on Correctional Industries' financial statements.

FINDINGS AND RECOMMENDATIONS. This report includes one finding and recommendation that is summarized below.

FINDING #1. Correctional Industries has no policy and, in some instances, no support for allowances and other reserves.

Correctional Industries maintains an allowance for doubtful accounts receivable, an allowance for obsolete materials and finished goods inventory, and a warranty and showroom reserve. These allowances are estimates based on past or current activities, and are recorded to properly reflect all expenses that result from Correctional Industries' operations. However, Correctional Industries does not have support for some of the amounts and, in some instances, has not properly used or accounted for these reserves.

For example, the warranty reserve amounts that Correctional Industries reported at the end of fiscal years 2004 and 2005 had not changed, even though sales had increased significantly during fiscal year 2005. Instead, Correctional Industries recorded warranty expense as the actual costs were incurred. As a result, warranty expense may be overstated because it was recorded when the reserve was established and then again when the costs were incurred. Other allowances, such as the allowance for doubtful accounts receivable, could not be recalculated or explained.

We recommend that Correctional Industries review its accounting for allowances and reserves, and develop a policy for determining all allowances and reserves. The policy should explain when the allowances will be increased and decreased, as well as the basis for these increases and decreases. Compliance with its policy should be regularly monitored.

PRIOR FINDINGS AND RECOMMENDATIONS. The prior audit report covered fiscal years 2002 and 2003, and included three findings and recommendations. The status of these findings and recommendations are outlined below.

PRIOR FINDING #1. Correctional Industries did not follow its policy for collecting outstanding accounts receivable. Correctional Industries' policy requires contacting any customer with invoices 60 days and older. Correctional Industries had no documentation to show it complied with its policy. Receivables that were more than 90 days old were \$182,955 at the end of fiscal year 2002, and \$112,066 at the end of fiscal year 2003.

We recommended that Correctional Industries pursue and collect accounts receivable in accordance with its policy. Correctional Industries now pursues and collects receivables, and, as of June 30, 2005, receivables of more than 90 days old only totaled about \$20,000. **CLOSED**

PRIOR FINDING #2. Correctional Industries did not have a policy or support for allowances and other reserves. Correctional Industries maintained an allowance for doubtful accounts receivable (\$15,000), an allowance for obsolete materials inventory (\$46,000), and an allowance for warranty expenses (\$85,020). Correctional Industries had no documented basis for these amounts, and no policy to govern the establishment and periodic review of allowances and reserves.

We recommended that Correctional Industries develop a policy for determining all allowances and reserve amounts, and review these amounts at least annually. Correctional Industries has not implemented a policy, and some reserve amounts had not changed the past couple of years. Correctional Industries intends to review these reserves and, in some instances, determine if they are needed. This prior finding is closed and repeated as Finding and Recommendation #1 in this report. **CLOSED**

PRIOR FINDING #3. Some individual shop financial information is inaccurate due to accounting errors and lack of review. Correctional Industries maintains financial information for each shop. Some shop accounting entries were incorrect, and some accounting adjustments were not documented.

We recommended that Correctional Industries monitor and review accounting entries and transactions more closely to reduce errors and increase the accuracy of financial information. Correctional Industries has established a better system of review and, as a result, makes fewer accounting errors and has better documentation for adjustments. **CLOSED**

AGENCY RESPONSE. Management of Correctional Industries has reviewed the report and is in general agreement with its contents. Its response to the one finding is included in the Findings and Recommendations section of this report.

FINANCIAL SUMMARY. Correctional Industries is funded entirely by revenue generated from the sale of merchandise and some inmate labor services. Correctional Industries does not require a legislative appropriation for expenses of its operation. Some merchandise currently produced and sold by Correctional Industries includes office furniture, license plates, and signs.

The following schedule summarizes the financial operations of Correctional Industries for fiscal years 2004 and 2005.

IDAHO DEPARTMENT OF CORRECTION, CORRECTIONAL INDUSTRIES FINANCIAL SUMMARY

	<u>FY 2004</u>	<u>FY 2005</u>
<u>Statement of Net Assets</u>		
ASSETS		
Current Assets	\$3,364,806	\$4,060,067
Capital Assets	<u>923,905</u>	<u>1,110,686</u>
Total Assets	<u>\$4,288,711</u>	<u>\$5,170,753</u>
LIABILITIES		
Current Liabilities	\$504,619	\$622,690
Non-Current Liabilities	<u>45,099</u>	<u>51,972</u>
Total Liabilities	<u>\$549,718</u>	<u>\$674,662</u>
NET ASSETS		
Invested in Capital Assets	\$923,905	\$1,110,686
Unrestricted	<u>2,815,088</u>	<u>3,385,405</u>
Total Net Assets	<u>\$3,738,993</u>	<u>\$4,496,091</u>
<u>Statement of Revenues, Expenses, and Changes in Net Assets</u>		
OPERATING REVENUES AND EXPENSES		
Sales	\$5,429,806	\$6,368,603
Operating Expenses	<u>5,611,152</u>	<u>5,468,148</u>
Operating Income (Loss)	<u>(\$181,346)</u>	<u>\$900,455</u>
NON-OPERATING REVENUES		
Interest Revenue	<u>30,887</u>	<u>56,643</u>
NET INCOME (LOSS) BEFORE DISCONTINUED OPERATIONS	<u>(\$150,459)</u>	<u>\$957,098</u>
DISCONTINUED OPERATIONS		
Loss from Sale of Assets Held for Resale from Discontinued Operations	<u>(35,360)</u>	<u>0</u>
NET INCOME (LOSS) BEFORE SPECIAL ITEMS	<u>(\$185,819)</u>	<u>\$957,098</u>
SPECIAL ITEMS		
Education Program Expenses	(4,953)	0
Payment to the Department of Correction to Fund an Education Program	<u>0</u>	<u>(200,000)</u>
INCREASE (DECREASE) IN NET ASSETS	<u>(\$190,772)</u>	<u>\$757,098</u>
BEGINNING NET ASSETS	<u>3,929,765</u>	<u>3,738,993</u>
ENDING NET ASSETS	<u>\$3,738,993</u>	<u>\$4,496,091</u>

OTHER ISSUES. In addition to the findings and recommendations, we discussed other, less important issues which, if changed, would improve internal control, ensure compliance, or improve efficiency.

This report is intended solely for the information and use of the Department of Correction, Correctional Industries and the Idaho Legislature and is not intended to be, and should not be, used by anyone other than these specified parties.

We appreciate the cooperation and assistance given us by Correctional Industries' administrator, Bill Oldham, and his staff.

QUESTIONS CONCERNING THIS AUDIT SHOULD BE DIRECTED TO:

Ray Ineck, CGFM, Supervisor, Legislative Audits

Thomas Haddock, CPA, CGFM, Managing Auditor

Report OP23105

<p>For a copy of the entire audit report , contact Legislative Services Office, Audit Division, State Capitol Building, 700 W. Jefferson Street, P.O. Box 83720, Boise, Idaho 83720-0054, or call 208-334-3540.</p>
